

***2011-2015 Capital Improvement Program*****Financial Plan - Capital Improvements Program (CIP)**

Annually the city undertakes a wide variety of infrastructure projects ranging from water/sewer pipe installation to paving of city streets. The same goes for the funding of those projects, with an assortment of funding sources from levying of property tax to federal appropriations. A constant challenge for city staff is trying to find resources beyond property taxes to help with maintaining and enhancing the city's infrastructure while lessening the burden on Ankeny taxpayers.

The financial plan for the proposed 2011-2015 leverages resources in excess of \$135 million. When discussing a financial plan for a CIP the issuing of debt to cover project obligations is always a critical factor. The financial plan uses the city's traditional method of using 2-year temporary financing in the form of Bond Anticipation Notes (BAN), with the use of 10, 15 & 20 year Bonds for permanent financing. The following summary provides a breakdown for each major funding category the city uses to provide resources for projects. Following the summary is a number of supporting tables and graphs to provide a visual explanation of the proposed financial plan.

**Property Tax**

Property taxes, specifically those collected via the city's debt service levy, is the largest source of revenue for the proposed CIP, representing about \$57 million or 42.4% of the overall financial plan. Property tax revenue is used to make the principal and interest payments for any general obligation (GO) debt issued by the city to pay for infrastructure projects. There are five types of GO debt issued by the city, with all types backed by the full faith and credit of the city's taxing authority:

- 1) Regular GO debt – debt service levy only
- 2) Water-abated GO debt – reimbursement received from city's water fund
- 3) Sewer-abated GO debt – reimbursement received from city's sewer fund
- 4) Storm-abated GO debt – reimbursement received from city's stormwater fund
- 5) Tax increment financing-abated GO debt – reimbursement received from capturing taxes paid to all taxing authorities on certain new commercial & industrial properties
- 6) Referendum approved GO debt – additional debt service levy authority for capital projects approved by a vote of a super-majority (60%) of Ankeny taxpayers, such as the \$27 million Public Safety Bond Referendum approved in May 2006 with 82% voter approval.

The proposed CIP continues a higher reliance on regular GO debt consistent with prior years. The city experiences various cycles where some years there is higher abated debt than regular debt. Large projects such as the reconstruction of NE 36<sup>th</sup> Street, extension of Magazine Road, and widening of Delaware Ave have moved the city into a regular debt cycle. This situation has been planned for by allowing the debt service fund to build up a sizeable cash balance to handle the higher debt payments.

This planning has been sufficient for prior CIP's, although now future debt service levy adjustments will be needed to provide sustained resources for the CIP. As is shown in the attached presentation (to be given during the 10/25 Council workshop) city staff has updated figures for the funding options shown to the Council in past years to ensure sustained support from the debt service levy. These options represent different methods the Council could employ to fully fund the project expenditures currently proposed for the 2011-2015 CIP.

#### Tax Increment Financing (TIF)

The use tax increment financing (TIF) to abate some of the GO debt issued by the city is a way for the city to allow for growth, specifically commercial & industrial growth, to pay for itself. Of the \$57 million of GO debt discussed above about \$32 million, or 56.1%, of GO debt is financed through TIF abatements. The majority of the TIF-abated projects are located within the Prairie Trail development per the developer agreement with DRA Properties. These projects, such as The District at Prairie Trail and SW Prairie Trail Parkway, are designed to provide access to the commercial areas and encourage commercial investment in Prairie Trail.

Outside of Prairie Trail there is new infrastructure investment in the areas of the Crosswinds Business Park and the 36<sup>th</sup> Street/I-35 Interchange being supported by TIF financing. In Crosswinds the city's upfront investment of the initial roads serving the business park will be supported through TIF revenues with the balance being paid for through the state's Rebuild Iowa's Sound Economy (RISE) program. In addition, the City's investment in the 36<sup>th</sup> Street Interchange will be paid for via TIF revenues from new commercial investment anticipated in the area surrounding the interchange.

The Council is beginning the process this fall to create a new TIF district around the proposed 36<sup>th</sup> Street/I-35 Interchange project to allow the city to leverage private investment to fund infrastructure improvements related to the interchange discussed above. In addition, this TIF district could be extended to assist in funding transportation improvements along the NE 36<sup>th</sup> Street corridor.

#### Municipal Utility Revenues

The city's municipal utilities (water, sewer, storm water) help support numerous infrastructure projects to ensure each utility can adequately provide service to Ankeny's utility customers. Resources from the utility funds make up around \$29 million, or 21.7%, of the proposed CIP financial plan. Funds from the utilities go to pay for abatements of the GO issued debt discussed above, or to pay principal and interest payments for debt issued by each utility based on the revenues of the utility. These debt instruments are called Revenue Bonds and unlike GO Bonds are not backed by the full faith and credit of the city's taxing authority. Instead, the Bonds are supported by the amount of revenue each utility generates. One additional debt instrument used by the city is a loan from the State Revolving Fund (SRF). Iowa's SRF provides low-interest loans to communities looking to provide enhanced sewer service to its residents.

The largest project to be paid for through resources of a utility is the Rock Creek Laterals project. This project is in conjunction with the inter-local (28E) agreement signed with Polk County to allow the Golfview Acres and Country Club neighborhoods to connect to the Rock Creek Sewer the County is constructing over the next few years. Other projects include the sewer projects identified in the engineering study performed by Veenstra and Kimm to minimize sewer back-ups in the community.

Later this fall the Council will be asked to approve proceedings to issue revenue bonds for the sewer utility. The revenue bonds are to provide resources needed to undertake the multiple phases of sewer projects in the Veenstra and Kimm study. To provide resources for the revenue bond debt payments, GO debt abatements and normal operating expenses each utility charges a fee to its customers. The fees supporting the utilities are analyzed on an annual basis by the city's financial adviser, Public Financial Management (PFM). No immediate revenue bonds for the water utility are expected at this time, although it is anticipated the City will utilize revenue bonds for extension of the SW Oralabor Road Water Main in 2015.

#### Storm Water Utility

The function of the storm water utility as a funding mechanism for drainage improvements was established by the Council during last year's CIP process. The proposed CIP provides for \$250,000 each year from the storm water utility to go towards small drainage improvement projects. In addition, this financial plan includes \$8.5 million worth of drainage projects funded through the storm water utility fund by means of General Obligation Bonds abated by storm water utility revenues. These projects were identified through the various drainage engineering studies completed last year. A fee structure of \$3/ERU for non-residential properties and \$4/ERU for residential are currently in effect.

Last year, PFM completed an evaluation of the city's newly created storm water utility rate structure to project what rates will be needed to provide adequate resources for the utility to fund future operational and debt expenses, including the \$8.5 million worth of drainage projects. The projections completed by PFM show the city would not need to increase the storm water utility rate until FY2013 to provide adequate resources to the storm water fund. The projections suggest a \$0.50 increase in each rate in FY2013 and another \$0.50 increase in FY2014.

#### Grants & Intergovernmental

Every year city staff looks for opportunities outside of the normal funding mechanisms (property tax and utility rates) to assist with the construction of infrastructure projects. These opportunities can include awards of federal and state grants, regional resources or assistance from other taxing bodies. The proposed CIP financial plan identifies about \$27 million to be received from grant awards or intergovernmental assistance, representing 19.9% of all revenue sources. A few of the grants identified in the financial plan have already been awarded to city, such as a \$7.1 million federal earmark for the 36<sup>th</sup> St/I-35 Interchange and various STP/STP-TE awards from the Des Moines Area Metropolitan

Planning Organization (DMAMPO). Other grants have either been applied for already, waiting on award announcements, or the city anticipates making future applications for the funding.

The project relying the most on grant and intergovernmental support is the 36<sup>th</sup> St/I-35 Interchange, with a project cost of over \$27 million. This project has already received a \$7.1 million federal earmark and it is anticipated the city will receive about \$8 million in support from the Iowa Department of Transportation through their own five-year CIP. Going forward the financial plan proposes the city to seek additional grants through the DMAMPO and funding assistance from Polk County. Grants and intergovernmental assistance represent 80% of the funding support for the project.

Other assistance includes grants from the state for recreational trails (Neal Smith & Gay Lea Wilson), and economic development activity (Crosswinds Business Park Roads Phase 1). Furthermore, funding assistance of a little over \$1 million is anticipated from the Ankeny School District for infrastructure projects related to the construction of a second new high school along NW State Street, just north of NW 18<sup>th</sup> Street, and a shared parking lot for the new Prairie Trail Elementary School and Cascade Falls Aquatic Center.

### **Private & Developer Contributions**

The financial plan relies upon substantial contributions from private sources, with the vast majority coming through the development agreement with DRA Properties for Prairie Trail. Approximately \$12.4 million of private and developer contributions is proposed to support the CIP financial plan, representing 9.2% of total revenues. The Prairie Trail development agreement with DRA established a Civic Trust Fund by which DRA agrees to deposit \$1.25 in the Civic Trust Fund for every \$1.00 the city spends on infrastructure in Prairie Trail, with a contribution maximum of \$25 million. An amendment to expand the Civic Trust Fund agreement was approved by the City Council and DRA to add an additional reimbursement for the City's infrastructure investment in Prairie Trail. Under this amendment DRA agrees to deposit \$1.00 in the Civic Trust Fund for every additional \$1.00 the city spends on infrastructure in Prairie Trail, up to a maximum of \$20 million. This is on top of the original \$25 million, bringing the total City investment in Prairie Trail to \$40 million and Civic Trust Fund reimbursements by DRA at \$45 million.

In the proposed 2011-2015 CIP \$7 million worth of projects are expected to be funded through the Civic Trust Fund. The only project utilizing Civic Trust Fund support is the multiple year construction of the signature park in Prairie Trail, Chautauqua Park. Development of the park will use Civic Trust Funds in each year of the 2011-2015 Plan. City staff will also seek grant opportunities and private fundraising to support development of the \$12 million Park.

## **Financial Plan Overview**

The financial plan presents a diversified approach to funding the proposed 2010-2014 capital improvements program with over 55% coming from non-property tax sources. The plan focuses on finding revenue sources from outside the community to lessen the burden on Ankeny taxpayers and aggressively seeks partnerships for enhancing the city's infrastructure. This CIP financial plan continues the heavier reliance on regular GO debt as seen in years past, with substantial investments in infrastructure rehabilitation. Typically, any rehabilitation funding, especially for street rehabilitation, is funded directly by property taxes from the debt service levy, with little to no abatement. Below is a quick summary of the funding sources for the proposed 2011-2015 CIP.

<b><u>Funding Source</u></b>	<b><u>Revenue (\$)</u></b>	<b><u>% of Overall</u></b>
Property Taxes	\$57,425,959	42.4%
Municipal Utility Revenues	\$29,448,950	21.7%
Grants & Intergovernmental	\$26,977,920	19.9%
Private & Developer Contributions	\$12,474,000	9.2%
Miscellaneous Revenues	<u>\$9,147,600</u>	<u>6.8%</u>
	\$135,474,429	100%

This financial plan completes the submittal of the proposed 2011-2015 Capital Improvements Program for City Council's consideration. If any adjustments in project expenditures are made by the Council similar adjustments will be made to this financial plan. Following discussion of this financial plan at the October 25 workshop the City Manager will be seeking Council direction on the debt service property tax rate issue discussed in this summary and in past CIP presentations. The Council is scheduled to receive and approve the final draft of the 2011-2015 Capital Improvements Program during the November 15 Council meeting.